



# Holman

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# 2024 CA INFLATION FORECAST

Insights and strategies to position your fleet for success in 2024 and beyond.

# INFLATION

In recent years, economic inflation and the impact it has on the lifecycle of a vehicle has emerged as a significant concern for CDN fleet managers and executives alike. This whitepaper outlines the current economic environment and the impact it has on the lifecycle of a vehicle throughout its four stages: **Buy, Drive, Service and Sell**. Additionally, this paper addresses the outlook of the economic landscape and suggests action plans to mitigate potential future impacts.

## CDN Consumer Price Index



The CDN Consumer Price Index (CPI) has historically tended to follow the Bank of Canada's target of 2.00% annual inflation. Since dropping to a low of -0.40% in May 2020, the annual CPI steadily rose until peaking at 8.10% in June 2022. The CPI then fell steadily to a recent low of 2.80% in June 2023 with the index currently at 3.40% as of December 2023.

## What is the outlook for CDN inflation going forward?

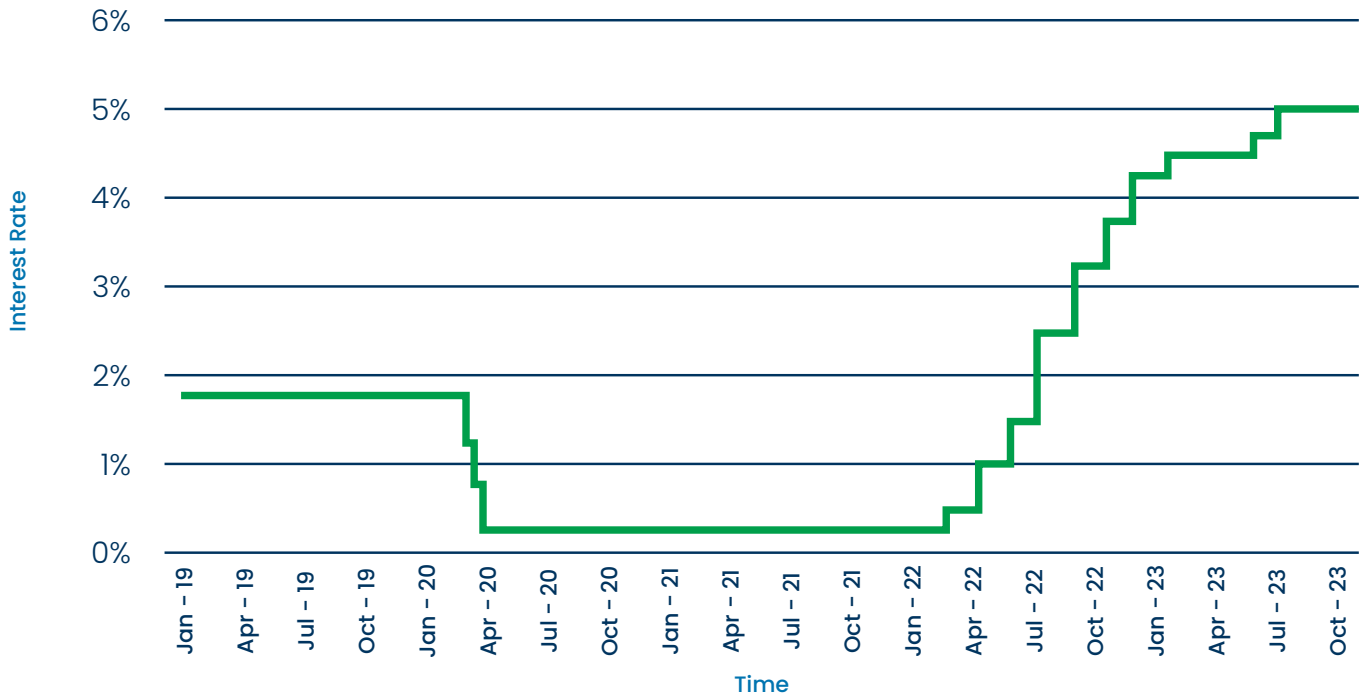
Per the Bank of Canada's January 2024 monetary policy report, inflation is projected to remain around 3.00% through the first half of 2024. As excess supply in the economy weighs on prices, inflation is forecast to ease to 2.50% in the second half of 2024 and to return to target in 2025. Given that inflation is still above 3.00% and underlying inflation is proving persistent, the Bank of Canada remains concerned that upside risks could materialize and cause inflation to remain above the target for longer than expected.

# BUY

To Buy Right, commercial fleets should analyze vehicle and equipment performance data to determine the optimal vehicles that result in a predictable budget and increased reliability. Key factors affected by inflation and impacting the Buy Stage of vehicle management are the interest rates involved in funding and the pricing of new vehicles.

## INTEREST RATES

### Bank of Canada Target Overnight Rate



The Bank of Canada's target overnight interest rate was at 1.75% just prior to the onset of the COVID pandemic in early 2020. The target rate was immediately dropped to 1.25% then 0.75% and finally to 0.25% all in March 2020 in a bid by the Bank of Canada to stimulate the CDN economy and was at that level until March 2022. As inflation began to peak in mid-2022, the Bank of Canada steadily increased the target overnight interest rate in response until recently reaching the current high at 5.00% beginning in July 2023.

## What is the outlook for CDN interest rates going forward?

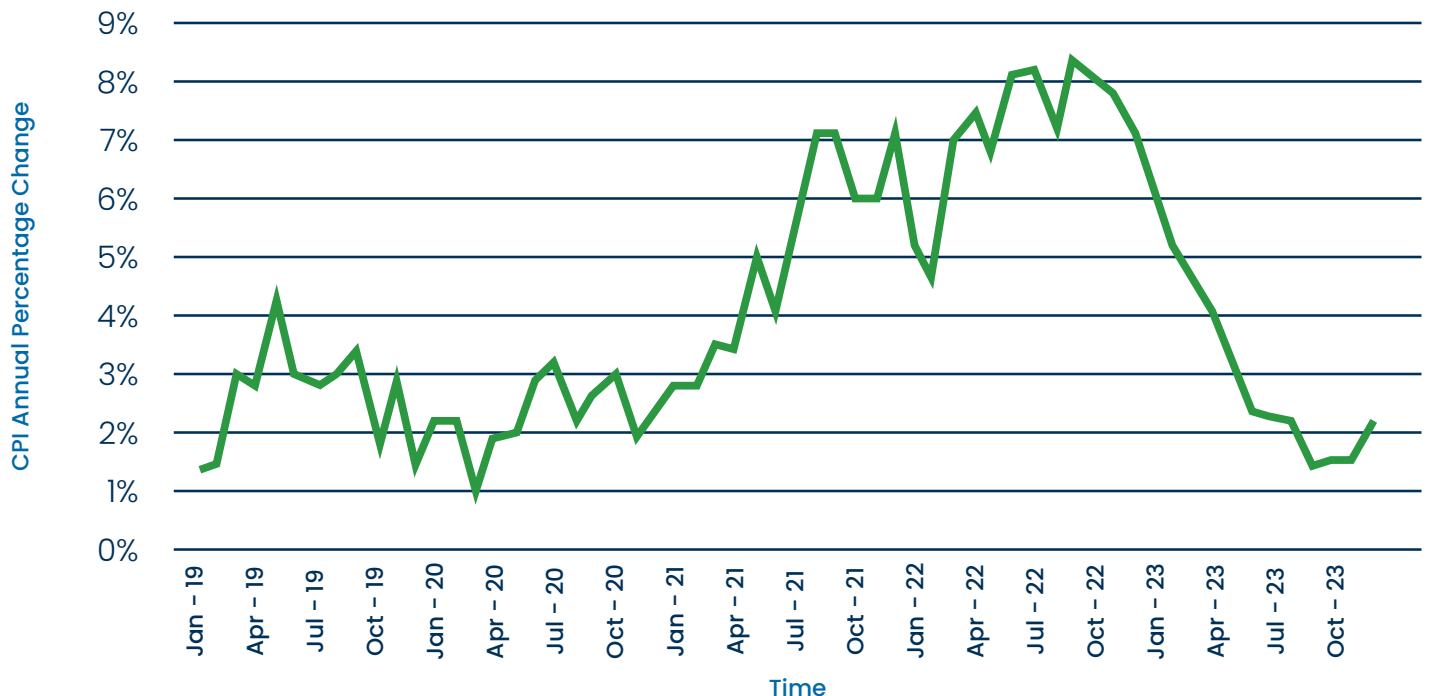
Bank of Canada governor Tiff Macklem indicated on January 24th, 2024 that **interest rate discussions at the central bank are now shifting from “how high” to “how long”**. Despite this shift, the Bank of Canada is not saying that interest rates will be falling any time soon given continued concern about inflationary pressures. However, a January Reuters survey of economists predicted a cut of 25 basis points to the target interest rate in June 2024 with a further drop of up to 75 basis points by the end of 2024.

## How can commercial fleets mitigate the impact of higher interest rates?

- Fleet managers and company executives should explore unique options including alternate funding sources, refinancing and leveraging the equity within their fleet.
- Commercial fleets should leverage the financial and analytical resources available through their fleet management company partnerships.

## NEW VEHICLES

### CDN CPI - Purchase of Passenger Vehicles



The CDN CPI for the purchase of passenger vehicles fluctuated between 1.00% and 3.00% until starting to climb sharply in December 2020. The annual CPI reached a high of 8.37% in September 2022 before steadily falling and reaching a recent low of 1.45% in September 2023.



## What is the outlook for CDN new vehicle pricing going forward?

CDN new vehicle prices fell in 2023 as OEM/dealer inventories recovered and interest rates rose. The OEMs increased incentives and dealers offered discounts to move vehicles off dealer lots. Consumers also benefitted from a lack of used vehicles and subsequent higher trade-in values.

In the short term, the strikes between Unifor, the United Auto Workers (UAW), Ford, GM and Stellantis have only impacted pricing on specific models due to availability. As for the long term, how the new agreements will affect labor costs and consequently, new vehicle pricing remains to be seen.

In any case, **pricing is not expected to return to the lower levels seen prior to the COVID pandemic** as the OEMs strive to maintain higher price points on their vehicles.

## How can commercial fleets mitigate the impact of higher new vehicle pricing?

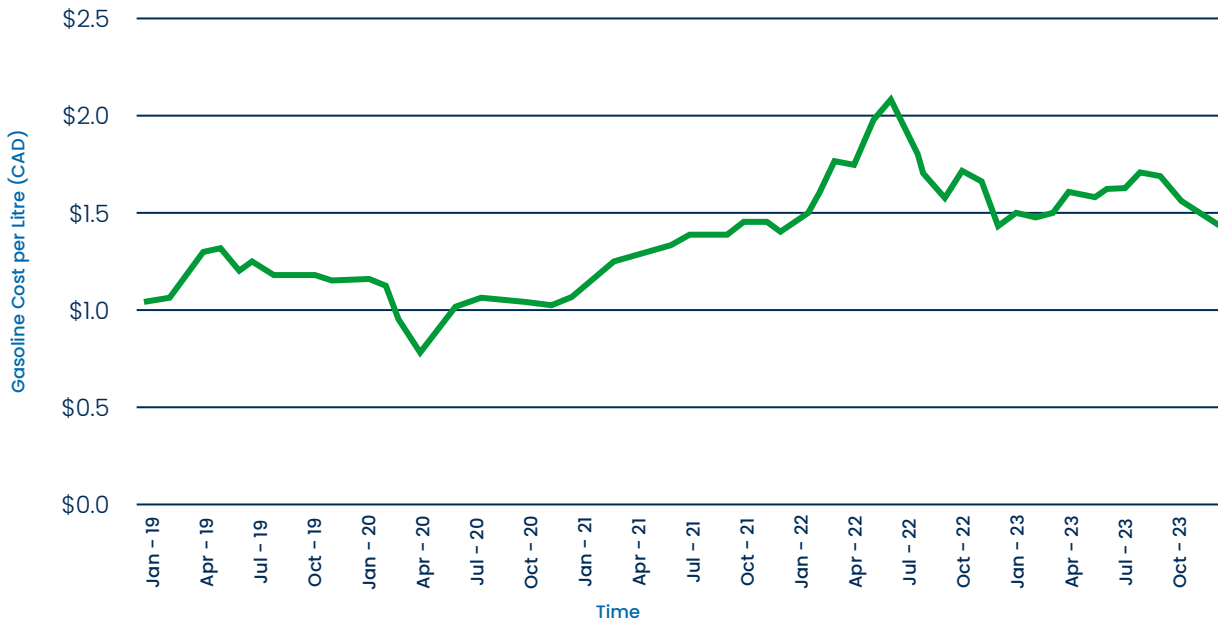
- Fleet managers need to have a sufficient, consistent and correctly allocated replacement strategy in place.
- Need for up front TCO analysis to select vehicles that meet both job specifications and budgetary requirements.
- Be prepared to think creatively and explore innovative cost-effective alternatives to current vehicles and configurations.
- Work closely with OEMs to optimize vehicle pricing and take advantage of factory ordering over dealer stock purchases.
- Adopt strategies from a maintenance and downtime/productivity standpoint to maximize the useful life of your vehicles.

# DRIVE

To Drive Right, commercial fleets should monitor utilization and driver behavior to help increase efficiency for overall fleet performance. **Key factors affected by inflation and impacting the Drive Stage of vehicle management are the costs of gasoline and electricity.**

## GASOLINE

### CDN Monthly Retail Gasoline Price



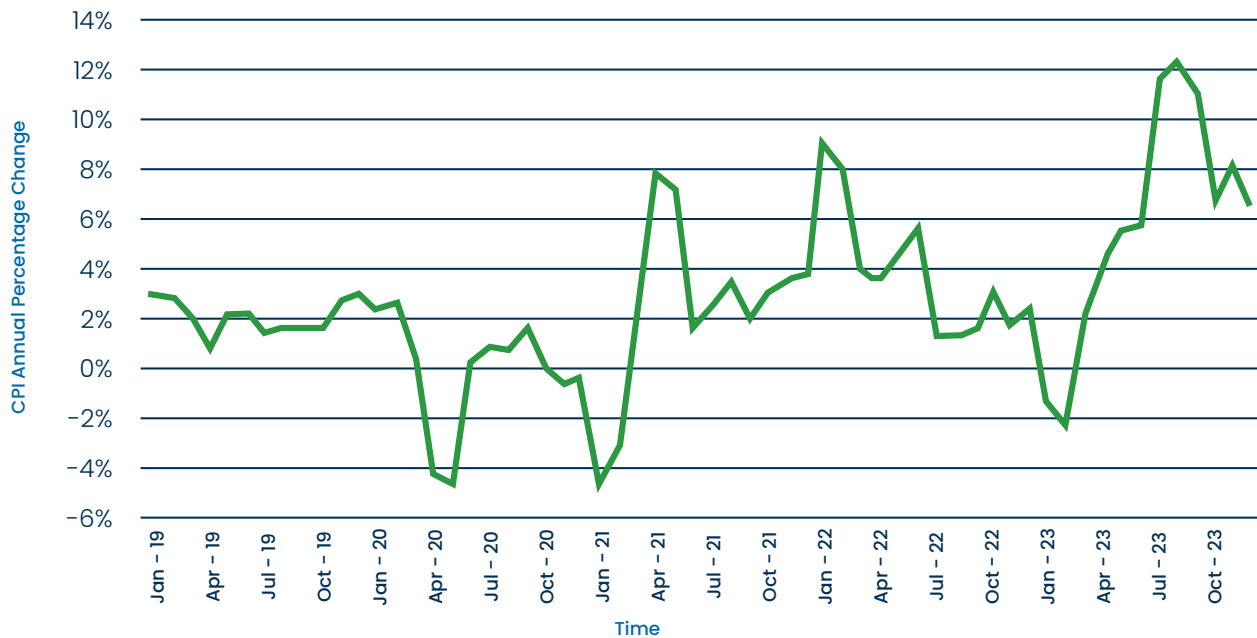
The CDN monthly retail price for gasoline hovered around \$1.00/litre before starting to climb slowly in January 2021, and then peaking at \$2.07/litre in June 2022. The price has since dropped to a low of \$1.44/litre in December 2022 and is currently at \$1.45/litre as of December 2023.

### What is the CDN outlook for gasoline pricing going forward?

According to Kalibrate Technologies, reinstatement provincially of gasoline taxes and annual increases to carbon taxes are expected to raise retail prices in the beginning of 2024. Gasoline demand will then rise in the spring following normal seasonal patterns with prices peaking in June and tapering off by the end of summer. **Retail prices are expected to track higher in 2024 compared to 2023 but not reach the highs experienced in 2022.**

# ELECTRICITY

## CDN CPI - Electricity



The CDN CPI for electricity prices held steady between 2.00 and 3.00% before starting to fluctuate up and down in early 2020 reaching a low of -4.44% in January 2021 and a high of 8.88% in January 2022. The CPI has since fallen to a low of -2.31% in February 2023 before climbing again to a high of 12.33% in August 2023 and then falling to 6.54% as of December 2023.

## What is the CDN outlook for electricity pricing going forward?

Potential changes in 2024 to provincially regulated electricity prices include the 2.70% increase anticipated for British Columbia and possibly the same 3.00% increase in Quebec as for 2023. In November 2023, Ontario announced rate increases of close to 20.00% to be offset by an increased rebate of 19.30%. Nova Scotia previously approved increases of 6.9% each year for 2023 and 2024.

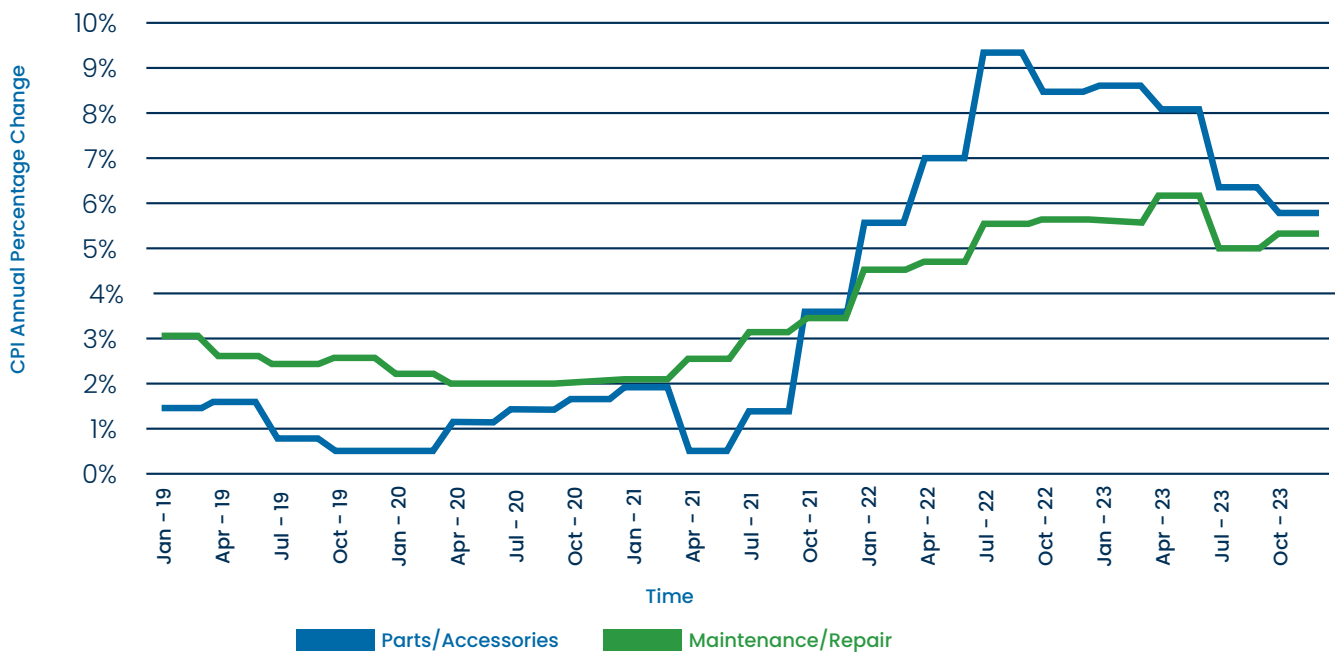
## How can commercial fleets mitigate the impact of fluctuating energy costs?

- Perform the upfront due diligence to select fuel-efficient vehicles that meet job specifications and budgetary requirements.
- Telematic devices can be leveraged to monitor utilization and provide visibility to driver behaviors such as idling and speeding.
- Take advantage of charging during off-peak hours for better electricity pricing.
- Explore battery storage solutions that charge during off-peak hours and supply vehicles during peak hours.
- Negotiate for better electricity pricing in those geographies where possible.

# SERVICE

To Repair Right, commercial fleets will utilize analytics to focus on a “predict and prevent” methodology to control operating costs and downtime. **Key factors affected by inflation and impacting the Service Stage of vehicle management are the costs of parts, maintenance and repair.**

## CDN CPI - Parts/Accessories vs Maintenance/Repairs



The CDN CPI for parts & accessories fluctuated between 0.50% and 2.00% before falling to a low of 0.44% in April 2021, rising to 9.44% in July 2022 and dropping to 5.81% as of October 2023. The annual CPI for maintenance & repairs fell from just below 3.00% to a low of 1.95% in July 2020, then rose to a peak of 6.21% in April 2023 before dropping to 5.33% as of October 2023.



## What is the CDN outlook for vehicle parts, maintenance and repairs pricing going forward?

Advanced, expensive technology combined with high-tech service appointments is leading to more expensive repairs. Supply chain issues continue even more so with the recent strikes between the UAW and Ford, GM and Stellantis as well as the shortage of trained, experienced technicians. Current vehicles on the road are gradually aging and experiencing more accidents. **Vehicle parts, maintenance and repair pricing is expected to remain at a high level at least for the foreseeable future.**

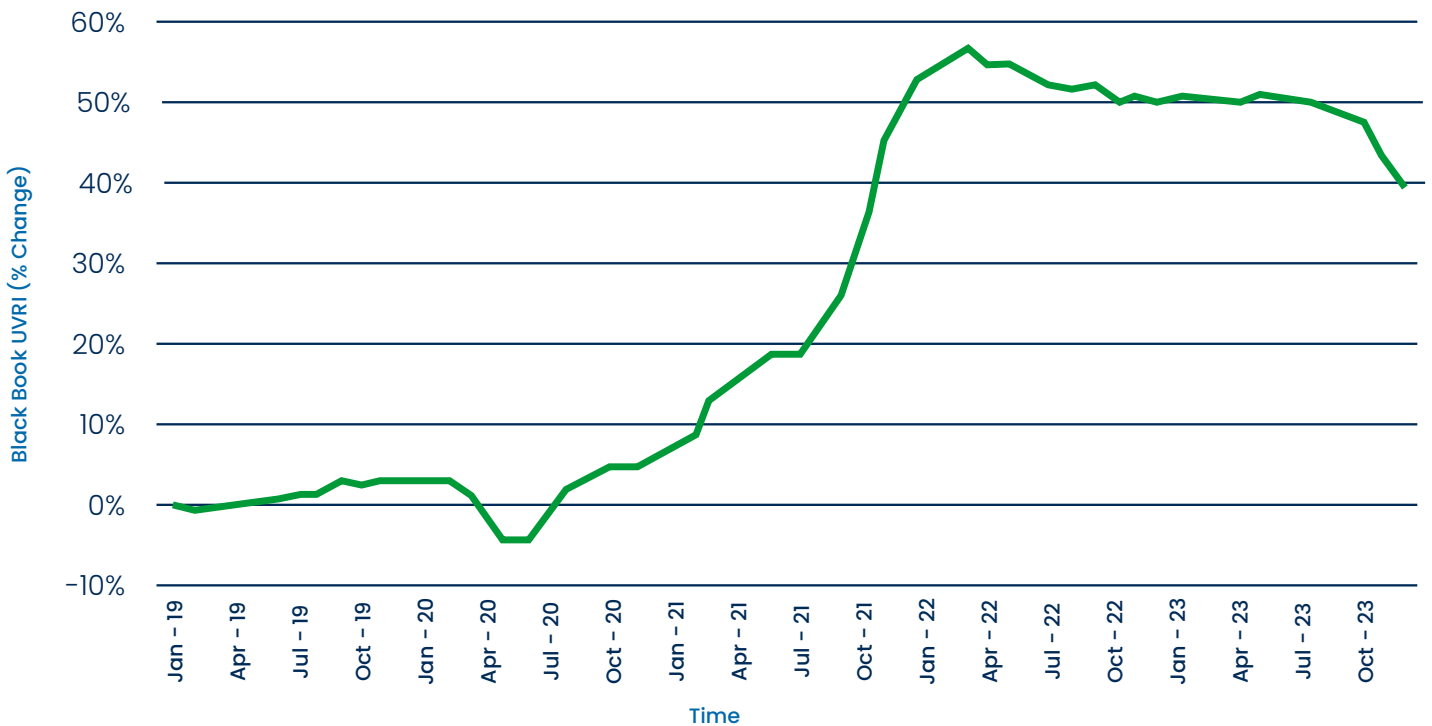
## How can commercial fleets mitigate the impact of higher parts, maintenance and repair costs?

- Focus on the basics: i.e., PMs, tires and brakes to avoid unscheduled repairs.
- Develop strategies for PM compliance, preferred vendor usage and tire pricing.
- Match the type of repair to the appropriate vendor: i.e., national accounts for PMs and brakes, dealers for warranty and mobile vendors for downtime critical assets.
- Put controls in place to manage rental utilization and expense.
- Review data frequently for opportunities through maintenance reviews and vendor analyses.
- Maintain a consistent view of the aging vehicles within the fleet.

# SELL

To Sell Right, commercial fleets will utilize vehicle data to determine when repairs are no longer economical for older vehicles and adopt a replacement strategy. A key factor affected by inflation and impacting the Sell Stage of vehicle management is the pricing of used vehicles particularly in wholesale markets.

## CDN Black Book UVRI - % Change Since Jan-19



The Black Book Used Vehicle Retention Index (UVRI) is a measure of the strength of used vehicle wholesale market values. The above chart represents the percentage change in Black Book UVRI as compared to January 2019. The UVRI remained unchanged until starting to climb from a low of -4.47% in May 2020 before reaching a peak of 56.84% in March 2022. The UVRI has since fallen gradually for the most part until reaching the current low of 39.54% in December 2023.

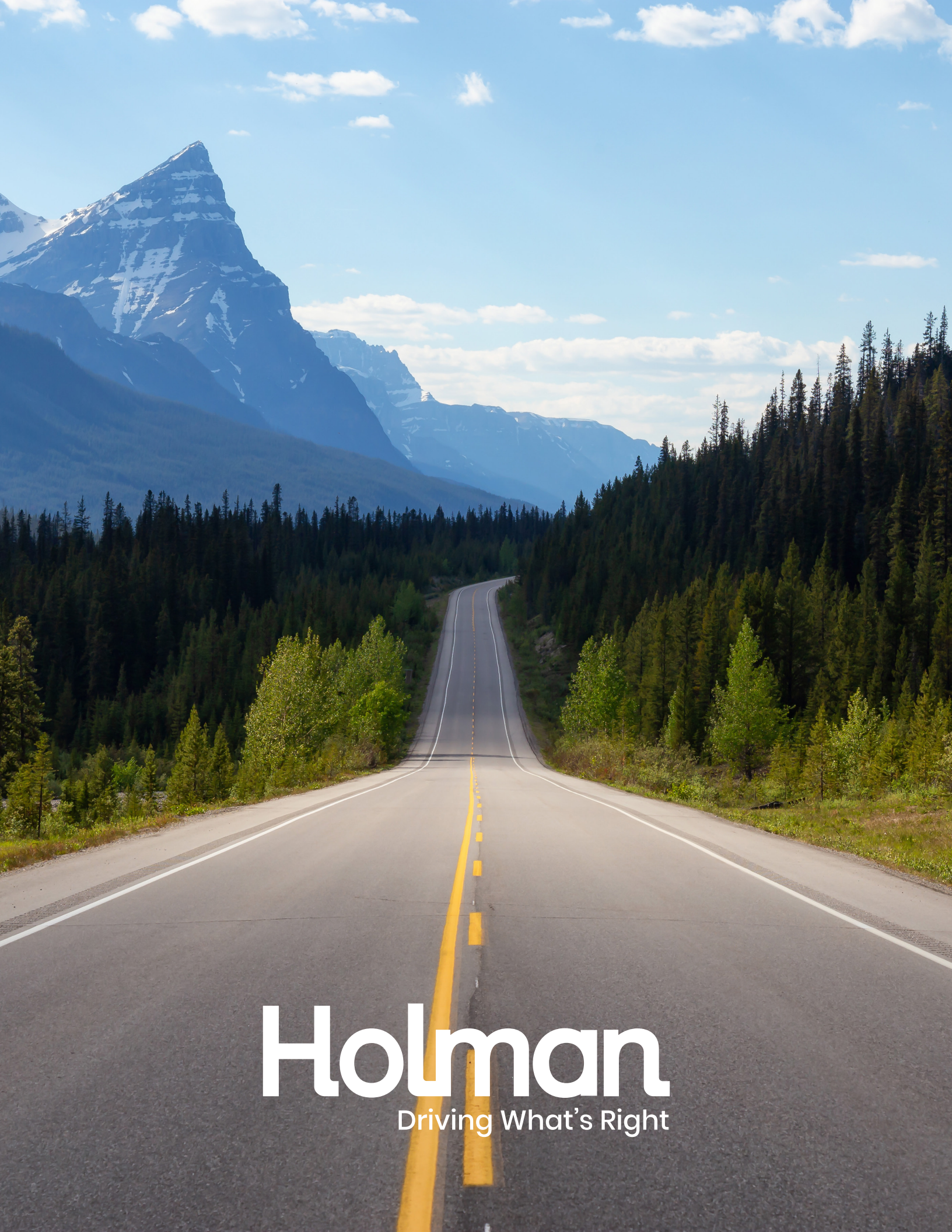


## **What is the CDN outlook for used vehicle wholesale pricing going forward?**

Wholesale prices for used vehicles have been declining and that decline has been speeding up. However, with the 2023 strikes between Unifor, the UAW, Ford, GM and Stellantis, dealers adopted a “wait and see” approach to buying used vehicles. As a result, the wholesale market has been experiencing uncertainty and fluctuations in both supply and pricing. With the recent agreements, wholesale prices may begin to decline again but in the short term, volatility in the used vehicle market is expected to continue and make pricing difficult to predict.

## **How can commercials fleet mitigate the fluctuations in the pricing of used vehicles?**

- Fleet managers need to determine vehicle requirements and dispose of assets appropriately.
- Ensure that vehicles are being properly utilized and maintained while keeping in mind parts delays and shortages.
- Avoid regional stockpiles of assets and prevent “graveyards” of unrepairable, immobile vehicles.



**Holman**  
Driving What's Right